

What Competition? Myopic Self-Focus in Market-Entry Decisions

Don A. Moore

David Tepper School of Business, Carnegie Mellon University, 5000 Forbes Avenue,
Pittsburgh, Pennsylvania 15213, don.moore@alumni.carleton.edu

John M. Oesch

J. L. Rotman School of Management, University of Toronto, 105 St. George Street,
Toronto, Ontario M5S 3E6, Canada, oesch@rotman.utoronto.ca

Charlene Zietsma

Richard Ivey School of Business, University of Western Ontario, 1151 Richmond Street North,
Ontario N6A 3K7, Canada, czietsma@ivey.ca

This paper documents egocentric biases in market-entry decisions. We demonstrate self-focused explanations for entry decisions made by three groups of participants: actual entrepreneurs (founders), working professionals who considered starting their own firms but did not (nonfounders), and participants in a market-entry experiment. Potential entrants based their decision to enter primarily on evaluations of their own competence (or incompetence) and paid relatively little attention to the strength of the competition. Our results suggest that excess entrepreneurial entry is more complicated than simple overconfidence, and can help explain notable patterns in entrepreneurial entry.

Key words: entrepreneurial entry; egocentrism; market entry; overconfidence; underconfidence

One of the key contributions of Cyert and March's (1963) behavioral theory of the firm is the notion that organizations conduct a limited search for information. Organizational decision makers conduct a local search that Cyert and March characterized as "simple-minded" because they "(1) search in the neighborhood of the problem symptom and (2) search in the neighborhood of the current alternative" (p. 121). They begin by examining the data most readily available for analyzing problems. While there are many domains in which this simple heuristic may produce efficient solutions, it runs the risk of leading to myopically biased choices when important information lies further afield.

When decision makers consider entry into new markets, the most available and accessible information will be about their own capabilities, strengths, and weaknesses. However, wise entry decisions must also consider the capabilities of existing or potential competitors as well as the market's capacity. Do entrepreneurs give sufficient weight to competitive assessment when they consider starting businesses? Evidence suggests they could do better. Some industries see perennially high rates of entry, intense competition, and high rates of failure (Geroski 1996, U.S. Small Business Administration 2003). Many industries, especially emerging ones, go through boom-bust cycles in which the rate of founding is highest immediately before the highest rate of failure. New entrants into these markets are the most likely to fail (Hannan and Carroll 1992). High rates of prior

entry should deter, rather than encourage, founding, yet as the flurry of Internet business start-ups in the late 1990s (just prior to the bursting of the dot-com bubble) demonstrates, new entrants did not appear to appreciate this.

Strategic management theory encourages decision makers to attend to the intensity of competitive rivalry and the threat of other entrants in an industry to assess that industry's attractiveness when making entry or investment decisions (e.g., Porter 1980). A business opportunity will generate above-average returns when the firm has a competitive advantage in the market, which is valuable, rare, costly to imitate, and which the firm is organized to exploit (Amit and Schoemaker 1993, Barney 1995). It is thus almost axiomatic in the field of strategy that competitive factors and market capacity will have a strong impact on new venture decision making and success (Zahra et al. 2002).

Much of the strategy literature assumes that competitive environments are objective and can be analyzed formally, yet Cyert and March (1963) recognized that managers' perceptions of the competition are subjective and imperfect (see also Hodgkinson 1997). Prior research with managers in established firms suggests they have limited conceptions of their competitive environment, viewing only a small fraction of objectively discernible competitors as rivals (Gripsrud and Gronhaug 1985, Porac et al. 1989). For instance, Porac et al. (1989) found that local firms were seen as rivals,

while the international competition was likely to be ignored. Given the critical importance of accurate assessment of the competitive landscape to a firm's chances for success, the firm's ability to conduct this assessment is an important issue (Baron and Ward 2004, Mitchell et al. 2002).

By some estimates, half of all new manufacturers fail within their first four years (Mata and Portugal 1994; see also Dunne et al. 1988, Audretsch 1991, Wagner 1994). Grim statistics on entrepreneurial failure rates are not reflected in entrepreneurs' beliefs regarding their own prospects. Cooper et al. (1988) found that one-third of the 2,994 entrepreneurs in the industries they surveyed rated their odds of success at 10 out of 10. This finding, and others like it, has been cited as an example of entrepreneurial overconfidence (Busenitz and Barney 1997, Camerer and Lovallo 1999, Kahneman and Lovallo 1993). Entrepreneurs' decisions show biases and imperfections, including the illusion of control, overconfidence, faulty statistical intuitions, and reliance on decision-making heuristics (Busenitz 1992, Simon et al. 2000, Alvarez and Busenitz 2001, Zacharakis and Shepherd 2001), and entrepreneurs may be more susceptible to biased decision making than are other decision makers (e.g., Busenitz and Barney 1997, Busenitz 1999, Palich and Bagby 1995).

In this paper, we build on March and Cyert's notion of myopic information search to explain two market-entry error types: Excess entry in some markets and sparse entry in others. The entrepreneurship literature (e.g., Busenitz 1992, Simon et al. 2000) has focused on attempts to explain excess entry, yet insufficient entry, or the failure to exploit profitable opportunities, is also important. A focus on excess entry may exist because the decision to enter is inherently more interesting to entrepreneurship researchers, or it may simply be that nonentrants are harder to find and more difficult to study. In this paper, we include both entrants and nonentrants in studies of entry decisions. We provide an integrative theory that can help account for both excess and insufficient entry. Our research suggests that both of these errors may be the result of entrepreneurs' focus on themselves at the expense of understanding the competition. To test our ideas, we conducted two studies.

In a qualitative field study, we examined the factors that potential entrepreneurs considered when making decisions about starting businesses. We note a surprising finding: Those who started businesses *and* those who decided against starting businesses mentioned factors predominantly internal to themselves or their ventures when making their decisions. That is, they thought about their personal abilities and their ventures, but they rarely mentioned external factors such as the capacity of the market they were entering or the strength of their competitors. We sought explanations for this curious finding in the literature on myopic biases in decision making

(Kruger 1999, Moore and Kim 2003). This line of theorizing depends heavily on Cyert and March's original ideas about the myopia of information search. We designed an experiment to test three resulting hypotheses about market-entry decisions.

Our findings are consistent with the hypothesis that when making market-entry decisions, people focus on personal considerations at the expense of competitive considerations. As a result, potential entrants overenter competitions that they see as easy, and underenter competitive situations that they see as difficult. Because others make the same judgments, we see systematic overentry in some markets and underentry in others, relative to the expected returns available in those markets. These findings are contrary to the prescriptions of strategic management theory and rational decision making.

The paper proceeds as follows. We present the first study, in which we take an inductive approach to identifying what decision makers consider when making venturing decisions. We then assess the findings of this study in the context of the judgment and decision biases literature. We develop hypotheses, which we then test in the second study. After presenting the results of this second study, we conclude by considering the implications of both studies for research and practice.

Study 1

A number of prior studies have concluded that the decision-making styles of entrepreneurs differ systematically from those of the rest of us (see, e.g., Busenitz and Barney 1997, Busenitz 1999, Gaglio 1997, Kirzner 1979, Palich and Bagby 1995). Business founders tend to be more optimistic in their assessment of business opportunities (Cooper et al. 1988) and have greater confidence in their own abilities (Krueger and Dickson 1994). Palich and Bagby (1995) conducted a scenario study in which they classified business people as entrepreneurs or nonentrepreneurs based on their answers to a questionnaire about their growth and profitability aspirations, innovation history, and their involvement in business founding. While this method of sorting their sample was somewhat unorthodox, these authors found that those classed as entrepreneurs viewed equivocal information more positively than did nonentrepreneurs and that entrepreneurs saw fewer risks in uncertain situations than did nonentrepreneurs.

In a scenario study of 124 entrepreneurs' and 95 managers' decision making, Busenitz (1999) found that entrepreneurs exhibited overconfidence biases and employed the representativeness heuristic more extensively than did managers, and as a result, perceived less risk (Busenitz and Barney 1997). To assess overconfidence, decision makers were asked to rate their levels of confidence in their answers to a standard trivia task. In a separate scenario study, Simon et al. (2000) found that MBA

students were more likely to make positive venturing decisions when they exhibited stronger illusion of control biases and stronger beliefs in the “law of small numbers.” They reasoned that entrepreneurs are more likely to be susceptible to these biases. Biases such as belief in the law of small numbers, overconfidence, and illusion of control are thus expected to increase the likelihood of venturing (Busenitz 1999, Palich and Bagby 1995, Simon et al. 2000). If potential entrepreneurs focus on only a few key aspects of the problems (Krueger and Dickson 1994) and use few decision rules (Kahneman and Lovaglio 1993), they may fail to fully acknowledge the risks associated with venturing.

These studies share the characteristic that they are scenario studies, not based in a specific venturing situation. In our first study, we examined the decisions of both entrepreneurs (founders) and managers who decided against venturing (nonfounders) through interviews in which they generated their own list of the most important criteria they considered while making their entry decisions. The founders had established high-technology businesses, while the nonfounders were a sample of high-technology professionals who had seriously considered starting specific businesses, but decided not to.

Participants

The sample for this study was drawn from a survey of the 1,821 members of the British Columbia Technology Industries Association (BCTIA) in 1996, which asked respondents if they had considered founding a venture and if they were employed. We received 630 responses. We eliminated 482 respondents who either indicated no recent venture-founding decisions (455), or whose responses were incomplete (27), and added four additional founders identified from local media sources. We further qualified the remaining participants over the telephone based on the following criteria: (1) Venture decisions must have been made within the previous decade; (2) “founders” had to have been principals in the founding of high-technology ventures who had equity stakes in their businesses and were working full time within them at the time of interview; and (3) “nonfounders” had to have managed high-technology businesses or significant projects and had to have seriously considered founding a specific business, but chose not to. Thirty-three nonfounders and 25 founders did not meet the criteria or could not be contacted. Twenty-six nonfounders and 14 founders declined to be interviewed. In total, 34 founders and 20 nonfounders met our criteria and agreed to be interviewed. Most were male (88.9%) and university graduates (92.5%). A minority (31.5%) had graduate degrees. The interviews were conducted 5.1 years on average after the start of the venture for the founders, and 3 years on average after the decision not to found for the nonfounders. Table 1 summarizes the participants’

Table 1 Numbers of Founders and Nonfounders with Various Types of Previous Work Experience

	Founders (<i>n</i> = 34)	Nonfounders (<i>n</i> = 20)
<i>Length of work experience</i>		
Less than 5 years of work experience	5	2
5–10 years work experience	4	4
10–15 years work experience	12	9
15 or more years work experience	13	5
<i>Relatedness of work experience</i>		
Highly related experience	20	4
Moderately related experience	9	9
Unrelated experience	5	7
<i>Prior entrepreneurial experience</i>		
Prior entrepreneurial experience	16	6

prior work experience. Founders tended to have slightly more, and slightly more related, experience than nonfounders on average, and were somewhat more likely to have had prior entrepreneurial experience. In all but two cases, when founders had business partners we interviewed the lead entrepreneur—that is, the entrepreneur who generally held the role of president or CEO, and who had been the strongest driver in founding the business. In the two exceptions, we interviewed technology experts who founded businesses with lead entrepreneurs. Excluding these two interviewees changes our results by less than 1% in each founder category, and our conclusions remain the same.

The first section of each interview was semistructured, and lasted 45 minutes on average: Participants described their career paths to date and told the story of a specific entrepreneurial opportunity they had faced. Neutral probing questions were used to uncover specific details, clarify timelines, and bring feelings to the surface. Participants reflected on their decision-making processes and the factors they considered when deciding whether to start the venture. We also asked participants about their personal lives during the time the decision was made to help jog their memory to the time and context of their decision. The second and third parts of the interview were not relevant to the present study.

Data and Analysis

Transcriptions of the interviews were analyzed using a qualitative coding scheme, focusing on naturally occurring events in natural settings (Miles and Huberman 1994) and our informants’ perceptions of the factors influencing their decisions. The initial pass through the transcripts produced an exhaustive list of factors that participants considered when they were deciding whether to start a specific venture. As each new factor was identified, it was added to the coding scheme until no new factors were identified. This procedure identified 21 factors, some of which were phrased as concerns about a

Table 2 Description of Coding Categories

Category	Description	Factors in this category
Ability	Factors related to the abilities/experiences of the decision maker	Confidence in myself Confidence from my past experience Confidence from personal optimism Concern about my ability to manage
Internal	Factors related to the business itself	Confidence in the product/opportunity/technology Confidence that the task will be simple Confidence based on another's assessment of the business Concern that the business will fail Concern about the capital intensity of the business Concern about cash flow Concern about the potential profitability of the business Concern about vulnerability to accounts receivable Concern about vulnerability to partners Concern that the business will be difficult to manage Concern about managing/being responsible for employees Concern about the technology
External	Factors outside the business that may affect the business	Confidence regarding the competition Concern about the competition Concern about changes in the economic climate Concern about changes in government regulations Concern about the impact of technological change

particular aspect of the decision, and others that indicated confidence about an aspect of the decision. These factors were then sorted into three general categories: Ability factors, external factors, and factors internal to the new venture, with confidence and concern subcategories for each category. These are shown in Table 2. Ability factors included those related to the individual decision maker's assessment of his or her ability to successfully run the business, such as self-confidence in, or concerns about, his or her skills or experience. Internal factors were about the business itself. These included concerns about conflicts between partners, the projected costs and selling prices of products, the capital intensity of the business, or the decision maker's confidence or concerns about the opportunity or technology. External factors included those within the external environment of the business, such as competitors, the broader economy, or the government. A research assistant unaware of the present hypotheses was asked to assign the 21 factors into the three general categories, and achieved perfect agreement with the coding author.

Once this more abstract coding scheme was developed, one of the authors made a second detailed pass through each of the transcripts, carefully coding them according to the new coding scheme. Each participant's statements received as many codes as issues they mentioned. A research assistant trained in the coding scheme

independently coded 15 of the transcripts (10 founders and 5 nonfounders). Interrater reliability was 0.92, and discrepancies were easily resolved through discussion.

Results

Coding results are shown in Table 3. Both founders and nonfounders focused much more on personal ability (43% of 131 total factor mentions for founders and 24% of 54 total factor mentions for nonfounders) and internal factors (44% of 131 total factor mentions for founders and 67% of 54 total factor mentions for nonfounders) than they did on external factors (13% of 131 total factor mentions for founders and 9% of 54 total factor mentions for nonfounders). This common tendency among both founders and nonfounders to neglect external factors when making market-entry decisions is striking.

Founders and nonfounders did show some significant differences in their descriptions of the factors on which they based their venturing decisions. Founders were more likely to speak confidently about ability factors (93% of 56 ability factor mentions were viewed with confidence) than nonfounders (46% of 13 ability factor mentions were viewed with confidence), and overall, spoke more about ability factors than did nonfounders (43% of all founder mentions versus 24% of all nonfounder mentions). It is possible that the founders in our sample were more confident than nonfounders because they were more experienced, rather than because they exhibited more bias than the nonfounders. To address this concern, we compared a subsample of 12 founders and 12 nonfounders, matched on the basis of experience.¹ We found the same pattern of results. Founders confidently mentioned ability factors 21 times and internal factors 20 times versus four and three confident mentions for nonfounders, respectively. Nonfounders mentioned concerns about ability factors four times and concerns about internal factors 24 times, versus one and four concerns for founders, respectively. Neither group made any confident mentions about the external environment, and only

Table 3 Founders' and Nonfounders' Mentions of Decision Factors

	Founders' decision factors	Nonfounders decision factors	Total mentions
Ability	56	13	69
Confidence	52	6	58
Concern	4	7	11
Internal factors	58	36	94
Confidence	41	5	46
Concern	17	31	48
External factors	17	5	22
Confidence	11	0	11
Concern	6	5	11
Total mentions	131	54	185

three concerned mentions were made about the external environment—one by a founder, and two by non-founders.

Social desirability and self-esteem issues could have biased nonfounders away from speaking about themselves. Nonfounders may have chosen to explain a decision not to found using factors other than their inadequacies as entrepreneurs. The converse effects are likely for successful founders. For internal factors, the same logic may apply. Nonfounders emphasized internal factors more than founders did (67% of nonfounders' total factor mentions versus 44% of founders' total factor mentions), and mentioned more concerns than confidence factors (57% of 54 internal factor mentions were concerns), while the converse was true for founders (only 29% of 58 internal factor mentions were concerns).

The fact remains that external factors played a remarkably minor role in both sets of participants' explanations for their venturing decisions. Only 12% of total factor mentions focused on the external environment (13% for founders and 9% for nonfounders), and of those, only 10, or 5% of total factor mentions, dealt with competition. Only 10 respondents mentioned competition at all. In half of those cases, competition was mentioned as a factor that was not a problem, as suggested by the following quotations from the interview transcripts:

We didn't have any competition.

What we had was something that was unique, something that wasn't available. We could just about charge anything we wanted.

Well, we knew we could compete with the best. I'd worked with the best team at Microsoft. I knew I could play at that level. We knew we could do it technically.

We cannot determine whether this perceived lack of competition is because decision makers had truly innovative technologies or that they were naïve about the competition. One founder indicated he “stumbled across” a competitor after he had been in business for more than a year.

Other quotations from the interviews suggest that in many cases, our participants had not bothered to do much research on the external environment or the competition:

I did this without any market research. . . . It was a passion, not a deep analytical exercise.

It was all through intuition. I didn't go down and say, “who are the competing vendors?”

We used standard marketing surveys, but I used them to produce business plans that were credible to investors, not in any way to influence my own thinking. The data was fluff and boilerplate used to substantiate opinions that I held in here (pointing to his head).

Having no idea whatsoever of what we were getting into, we borrowed money.

Only one of our respondents mentioned market capacity as a consideration.

In contrast, our participants looked inward to determine their aptitude and appetite for entrepreneurship. In several cases, the decision to found a business was made based on personal factors, without a viable venture plan prior to the launch of the business. Decisions against venturing were also disproportionately made based on personal factors.

You realize that you are either an inventor or a starter or you're not . . . I wasn't.

I have always stepped into something—not had everything on the line. As I become confident with experience, I may be more of a risk taker, but the real opportunities I looked at, at the end of the day, I didn't have the courage or the conviction to go through with them.

I am too conservative to launch into something entrepreneurial.

I had never any idea as far as how you start your own business. It was always like a big black cloud for me, I mean not black as onerous but black as in not knowing what's inside—like a black box.

Factors internal to the venture were also important, and reflected a consideration of how confident a participant felt about a business or how easy it would be to succeed in a market.

But for me this one was, this one was pretty easy, okay. The opportunity is there. If I can get the money, I can get the people, put a team together. Let's go for it.

We had already decided that, you know, there were tons of product opportunities around. This is the early 90s, late 80s. Everybody was getting rich.

This is a pretty easy business you know. You get an order before you developed it, it is easily bankable, and you deliver this product on time. What's the big deal?

I could see that I could make it work, so that was the evaluation process, and it was mostly proving to myself that this approach and this technology could be used in the ways that we were trying to apply it.

I spent a year trying to figure out how to do it, and all of a sudden you realize, and once you come against some of the design problems, I got bogged down.

Discussion of Study 1

The results suggest that decision makers focused on personal ability factors followed by factors internal to the venture. Among founders and nonfounders alike, few identified factors in the external environment as influencing their decisions, despite the fact that strategic management theories would suggest an analysis of the environment should be a starting point for entry decisions (Porter 1980, Hitt et al. 2003). These myopic decision processes, based on little or at best local information

searches, are noteworthy given that our participants were experienced and well-educated professionals. That the decision processes for both those who founded a venture and those who did not was similar is also noteworthy, and is a new contribution to the study of market-entry decisions.

It may make intuitive sense to enter a market only if one's own abilities are very strong in that area. However, this approach could fail to exploit opportunities in which the competition is particularly weak, such that even a mediocre entrant would be successful. Furthermore, if decision makers fail to consider external factors, many of them are likely to enter markets in which many feel competent, leading to intense competition and higher rates of failure in those markets. Rational entry decisions depend on the comparison between one's own strengths and those of the competition, relative to the carrying capacity of the market. If market-entry decision makers truly disregard competitive factors, focusing only on their own abilities and internal characteristics of their business opportunities, we are likely to see overentry in markets in which many potential entrants believe in their own abilities to offer a good or service, and underentry in markets that most decision makers believe will challenge their abilities to make such an offering. Some industries—such as restaurants, bars, liquor stores, and retail clothing—see perennially high rates of entry, low profits, and high rates of failure (Dun & Bradstreet 1997a, b; U.S. Small Business Administration 2003). Differences in rates of entry between industries are not well accounted for by the size of an industry, the profitability of its firms, or barriers to entry (Geroski 1996).

Our interview data cannot rule out some alternative explanations for participants' tendency to focus on themselves. First, it is possible that participants retrospectively felt the need to take personal credit for the decision, regardless of its outcome. They may have considered the competition when making the decision, but did not talk about it because they thought it might appear that they lacked a compelling vision for themselves. Second, our participants may simply have been better at remembering or explaining their own roles in their decisions. While our interview data do not allow us to address these concerns, the results of the laboratory study that follow are inconsistent with this alternative explanation.

Third, some of the internal factors, particularly issues of profitability and confidence about the technology/product, may have included an implicit focus on competition. While our decision makers did not explicitly mention competition, it may be that their confidence or concerns about having a good product or opportunity were related to their assessment of the competitors for that product. We cannot disentangle these issues with the interview data.

Fourth, we cannot know whether the entry we observed in the field was rational. It is possible that our nonfounders did face worse venturing opportunities, and thus made rational entry decisions. Also, we cannot say that our participants' degree of internal focus was in error because we cannot specify what considerations were important for their future success. We also do not distinguish between successful and unsuccessful entrepreneurs. Fifth, it is possible that those individuals who agreed to take part in our interviews did so because they enjoyed talking about themselves, and that our results do not broadly represent all potential entrepreneurs.

Because it is difficult to rule out these alternative explanations for the results of Study 1, we turn to the literature on decision biases to further investigate what might be happening. We then present a laboratory experiment in which we simulated the market-entry choice and asked participants to describe their entry decisions. In the laboratory, we were also able to exogenously manipulate the difficulty of the competition, rather than simply measure participants' perceptions of difficulty.

Study 2

Prescriptive theories of strategic management and common sense both dictate that potential entrepreneurs should compare their own capabilities to those of existing and potential competitors, and also consider the market's carrying capacity relative to competitors' offerings when making market-entry decisions (Porter 1980, Barney 1985). Comparative judgments are often move strongly correlated with an individual's own performance than with the individuals true relative performance. We base these predictions on the results of the first study and on prior findings from research on myopic biases in comparative judgment.

Theoretical Framework

When people compare themselves to others, their judgments tend to be myopically biased (Kruger 1999, Moore and Kim 2003). Comparative judgments more closely represent people's abilities with respect to a task, rather than these abilities in relation to those of others. When the task is easy or all competitors are strong, each individual competitor tends to believe that he or she will be above average. For example, when a professor decides to make the exam open-book, students' expectations for getting an A on the exam go up dramatically, even when it is common knowledge that the exam is graded on a forced curve (Windschitl et al. 2003).

Evidence from a wide variety of domains suggests that people routinely tend to overestimate their abilities relative to others. On average, people believe themselves to be above-average drivers, investors, and negotiators (Svenson 1981, Kramer et al. 1993, Moore et al. 1999).

These overly optimistic estimates of ability can have profound consequences in many domains: People overestimate their own ability to pick stocks, and then trade stocks too often; they take inappropriate risks in product development; they overestimate their chances of winning in court and are therefore too willing to take their lawsuits to trial; and they take excessive risks in founding firms (Neale and Bazerman 1983; Daniel et al. 1998; Odean 1998, 1999; Simon and Houghton 2003).

However, the tendency toward believing that one is better than others is not universal. Average people rate themselves *below* average on difficult tasks such as juggling and unicycle riding (Kruger 1999). The characteristic feature of such worse-than-average effects is that they occur in domains where success (in objective terms) is rare, whereas people tend to rate themselves as *above* average in easy domains in which they generally feel capable (Kruger 1999, Windschitl et al. 2003). The perceived ease of a task derives from a combination of personal ability and task attributes. It can be influenced by variations in either perceived ability or task difficulty. Moore and Kim (2003) manipulated difficulty by varying the difficulty of the task itself. They found that people who had completed a simple trivia quiz expected to be above average relative to others who had completed the same quiz. Those who had completed a difficult trivia quiz, by contrast, expected to be below average relative to others who had completed the same quiz. Camerer and Lovallo (1999) varied participants' ability and obtained a similar effect. When participants in their study were self-selected trivia enthusiasts, they expected to outperform the other participants, despite that participants knew the others were also trivia enthusiasts.

In other words, judgments of relative performance tend to be biased, discounting others' abilities and overweighting personal factors. When people predict they will perform well, such as on a simple task, they expect that their performance will be *above* average, despite the fact that simple tasks are simple for everybody and not everybody can be above average. When people expect to perform poorly, such as on a difficult task, they believe that their performance will be *below* average, despite the fact that difficult tasks are difficult for everybody and not everybody can be below average. Researchers have concluded that comparative judgments are often based on myopic self-evaluations (Klar and Giladi 1997, 1999).

Entrepreneurship occurs at the nexus of individuals and opportunities (Venkataraman 1997). As such, entry decisions should consider estimations of entrepreneurial competence as well as considerations of the potential of an opportunity, yet human judgment is egocentrically biased. People have more information about themselves than about others. Psychological research documents many of the difficulties of escaping one's own point of view when trying to understand others, including the competition (Ross et al. 1977, Krueger and Clement

1994, Moore 2004a). This bias has profound implications for market-entry decisions. If people focus on their personal abilities and fail to consider how they stack up against the strength of the competition when predicting their ability to compete, then their entry decisions will be biased.

We conducted a laboratory experiment in which we exogenously manipulated both the difficulty of the task upon which competition is based and the capacity of the competition to reward entrants. We observed the effects of these manipulations on entry decisions and on explanations for those decisions. In the experiment, participants made decisions about whether to enter each of four rounds of a competition. The decision to enter resulted in either a gain or a loss of money, depending on the participant's performance on a trivia quiz relative to seven other potential competitors. The trivia quiz results provided a proxy for results in a competitive market. Thus, each of the game's four rounds involved a decision to either stay out of a new market or to commit resources to entering that market. Sometimes the task that determined market ranking was simple; in other rounds, it was difficult. If participants focused too much on personal factors and too little on their competitors, they would be too eager to enter the competition in simple rounds and too reluctant to enter on difficult rounds.

HYPOTHESIS 1. People will more frequently choose to enter markets in which competition is based on simple tasks than markets in which competition is based on difficult tasks.

Our theory predicts that self-focus should moderate the effect of task difficulty on entry rates:

HYPOTHESIS 2. Greater self-focus will lead individuals to be more likely to enter simple markets and less likely to enter difficult markets.

Likewise, changes in a market's capacity would not influence a participant's trivia quiz scores; so although changes in market capacity should affect entry rates if people made their entry decisions rationally, we predicted that they will not.

HYPOTHESIS 3. Market-entry rates will be insufficiently affected by market capacity.

The strictest test of self-focus would come from a comparison of participants' entry behavior with their own estimates of competitors' market entrance frequencies. We expect that participants will correctly anticipate that others will enter simple markets more frequently than difficult markets. However, we expect that they will then neglect the implications of these predictions for competitive intensity.

Participants

Participants were 96 undergraduates at the University of Toronto who were paid for participating. At the start of the experiment, each participant received a \$10 base payment. Participants could also win or lose additional money depending on their performance in each of four rounds of a market-entry game. Each round of the game offered a maximum \$15 payoff and a maximum \$10 loss. If players stayed out of a market, their payoffs for that round of the game would be zero; they neither won nor lost any money. Participants' payoffs were averaged over the four rounds. A player who lost \$10 in each of the four rounds would leave the experiment empty-handed: The \$10 loss would wipe out his or her base payment. A player who ranked first in all four rounds would leave the experiment with \$25.

Experimental Design

The experiment had a 2 (quiz difficulty: simple versus difficult) × 2 (market capacity: three versus four) within-subjects design. The quiz difficulty manipulation varied the degree of difficulty of the trivia quizzes used to rank entrants in each round. Each participant saw two simple-rank and two difficult-rank markets. The market capacity manipulation varied the number of entrants the market could sustain profitably. In a capacity 3 market, the top three entrants would earn \$15, \$10, and \$5, respectively. Entrants ranked fourth through eighth would each lose \$10 (see Table 4 for payoffs).

To rule out idiosyncratic effects of order not relevant to the present hypotheses, the sequence in which both the quiz difficulty and market capacity manipulations were presented was counterbalanced, as shown in Table 5. For each round, experimental instructions emphasized that all eight competitors received the identical quiz in the same market. All participants decided independently and simultaneously whether to enter before they took the trivia quiz. Instructions explained that any tied scores would be resolved by a final tiebreaker question on each quiz, and that therefore ties were unlikely. After Round 2, participants received performance feedback about the amount of money they had won, but did not receive any feedback about the number of other entrants or others' scores on the first two rounds of

Table 4 Payoffs as a Function of Rank Within Market for Markets of Capacity 3 and 4

Rank	Capacity 3 (\$)	Capacity 4 (\$)
1st	15	15
2nd	10	10
3rd	5	5
4th	-10	0
5th	-10	-10
6th	-10	-10
7th	-10	-10
8th	-10	-10

Table 5 The Four Different Sequences of Quiz Difficulty (Simple vs. Difficult) and Market Capacity (3 vs. 4) over the Four Rounds

Sequence	Round 1	Round 2	Round 3	Round 4
1	Simple, Cap. 3	Difficult, Cap. 4	Difficult, Cap. 3	Simple, Cap. 4
2	Simple, Cap. 4	Difficult, Cap. 3	Difficult, Cap. 4	Simple, Cap. 3
3	Difficult, Cap. 3	Simple, Cap. 4	Simple, Cap. 3	Difficult, Cap. 4
4	Difficult, Cap. 4	Simple, Cap. 3	Simple, Cap. 4	Difficult, Cap. 3

the trivia quiz. This arrangement was designed to parallel the early-stage entry choice. Potential entrepreneurs must often decide whether to commit some amount of nonsalvageable fixed costs to enter a new industry with only imperfect information about their performance relative to other competitors.

The experiment had one process variable and two dependent variables. Verbal protocols served as a process variable. Each participant provided a description of what they thought about during the process of deciding whether to enter. Of the participants, 48 recorded verbal protocols into digital recording devices. Participants responded to these instructions: "Please talk through every part of your thought/decision process that you can." The other 48 participants recorded written protocols, responding to "Please jot down every part of your thought/decision process that you can." Each participant took part in the experiment in a different room, to reduce mutual influence on think-aloud protocols. Three trained research assistants unaware of the present hypotheses rated each of the protocols. Each protocol was rated on a three-point scale according to the degree of self-focus represented in the stated thoughts. Higher scores indicated a greater degree of self-focus. In addition, the use of two types of pronouns in each protocol was counted: Pronouns referring to the self (I, me), and pronouns referring to others (them, they).

The first dependent variable was market entry. Participants indicated whether they would enter the market in each round of the game. The other dependent variable was an estimate of the number of other competitors who would enter the market in each round. Four participants were excluded because they appeared to misunderstand the rules of the game: Their estimates of the number of competitors who would enter the market in each round exceeded the maximum of eight in more than one round.

Results

Tests for the effects of ordering quiz difficulty and market capacity revealed no significant main or interaction effects of order, F 's < 1. Therefore, subsequent analyses collapse across order conditions.

Market Entry. As predicted, rates of entry differed dramatically for the difficult and simple quizzes. Participants entered 69% of the time (or 5.5 out of 8) on simple rounds, but only 39% of the time (or 3.1 out of 8) on difficult rounds. This pattern deviates significantly from

Table 6 Entry Rates over the Four Rounds in Simple and Difficult Markets

	Entry rate in difficult rounds (%)	Entry rate in simple rounds (%)	Chi-square	β value of diff. \times self-focus int.
Round 1	39	74	11.32***	0.36**
Round 2	41	70	7.44**	0.41***
Round 3	43	65	4.38*	0.33**
Round 4	33	67	11.13***	0.51***

Notes. Chi-square values indicate the degree to which entry rates deviate from the null hypothesis of equal rates of entry into simple and difficult markets. Beta values indicate the results of regression analyses using the difficulty \times self-focus interaction term to predict entry.

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

the null hypothesis of equal entry rates in difficult and simple rounds, $\chi^2(1) = 33.10$, $p < 0.001$. As Table 6 shows, this same pattern held across all four rounds. These results are consistent with Hypothesis 1, which predicted greater entry in simple-rank markets than in difficult-rank markets, and with our theory, which predicted that entry decisions would be self-focused at the expense of considering the competition.

By contrast, the manipulation of market capacity had no significant effect on rates of entry. Participants were as likely to enter markets with a capacity of 3 (56% entry rate) as they were to enter markets with a capacity of 4 (52% entry rate), $\chi^2(1) = 0.85$, and this pattern does not deviate significantly from the null hypothesis of equal rates of entry in rounds of capacity 3 and 4. This finding is consistent with Hypothesis 3 and our expectation that participants' entry decisions would be self-focused. Manipulations of market capacity did not influence the absolute performance of the individual competitor on the quiz, and so its effect on market-entry decisions was similarly weak. Although we should be cautious about attributing too much to a null effect, the (nonsignificant) difference between the two means actually goes in the opposite direction than one would predict, given perfectly rational entry decisions.

Estimates of Numbers of Competitors. A difficulty \times capacity \times round mixed ANOVA reveals that participants accurately forecast more entrants into simple- than difficult-rank markets. In simple-rank markets, people predicted that there would be an average of 6.05 ($SD = 1.57$) entrants, while in difficult-rank rounds, people predicted that there would be an average of 3.94 ($SD = 1.62$) entrants, $F(3, 228) = 56.56$, $p < 0.001$. Table 7 displays a summary of means and standard deviations for these estimates across all four rounds. No other main effects or interactions are significant.

Participants who faced a simple trivia quiz market anticipated correctly that more people would enter that market than would enter a difficult trivia quiz market. Implicit in this prediction is the belief that more money

Table 7 Mean Estimates of How Many Competitors Would Enter a Market (Maximum 8)

	Quiz difficulty		Market capacity	
	Simple	Difficult	Three	Four
Round 1	6.46 (1.37)	4.09 (1.63)	5.43 (2.04)	5.56 (1.71)
Round 2	6.33 (1.49)	4.06 (1.73)	4.95 (1.92)	5.03 (2.06)
Round 3	5.48 (1.48)	3.64 (1.51)	4.39 (1.83)	4.41 (1.68)
Round 4	5.89 (1.76)	4.24 (1.79)	4.98 (2.06)	5.46 (1.80)
Means	6.03 (1.53)	4.01 (1.67)	4.91 (1.96)	5.12 (1.81)

was to be made in difficult markets, yet they nevertheless chose to enter simple markets more often. A comparison of two means from Round 1 illustrates this point. Participants who entered markets in Round 1 predicted that an average of 6.15 ($SD = 1.62$) competitors would also enter, while participants who did not enter estimated that 4.27 ($SD = 1.73$) competitors would enter, $t = 4.96$, $p < 0.001$. The decision to enter despite the high number of other competitors really only makes sense if participants believed that they would be above average on the simple quiz, but below average on the difficult quiz.

Protocols. Each participant provided statements about his or her market-entry decision process in each of the four rounds. The ratings of verbal protocols did not differ significantly from those of written protocols; mean differences < 0.5 , t 's < 1 . We therefore combined two conditions in our analyses. Statements were coded on a one-to-three scale according to their degree of self-focus. A code of 1 represented a judgment that the statements included thoughts solely about factors external to the participant and his or her ability, such as the market, competitors, risks associated with entry, and probabilities of success. Examples include statements such as: "Everybody will do well on this one" and "Only three people are going to not lose money." A code of 3 represented a judgment that the statements included thoughts solely about the participant and his or her success in the market. Examples include statements such as: "It's supposed to be a simple quiz, so I should do OK" and "I am going to stay out of this one because the last quiz was impossible." Most sets of statements contained aspects of both of these extremes. The following statement was coded with a score of 2: "People will see 'easy' and go in, less chance for me to place high, couldn't answer many easy ones anyway."

The mean rating for all protocols was 2.48 ($SD = 0.62$) with mean ratings for each of the three coders of 2.52 ($SD = 0.68$), 2.47 ($SD = 0.70$), and 2.44 ($SD = 0.61$). The three coders' ratings held together with satisfactory reliability, $\alpha = 0.93$. Where they disagreed, the three ratings were averaged to form a single measure of self-focus for each participant in each round. This measure of self-focus was modestly correlated with use of the self-referential pronouns ($r = 0.14$), and was

negatively correlated with references to others ($r = -0.51$). These ratings reflect a general tendency for people to focus on themselves when describing their entry decisions, consistent with our expectation that entry decisions would focus on internal factors and neglect consideration of the competition. The overall mean of 2.48 is significantly different from the midpoint of 2, $t(91) = 11.02$, $p < 0.001$.

Hypothesis 2 predicts an interaction effect: Self-focus would make people more likely to enter simple markets, but less likely to enter difficult ones. To test this hypothesis, we created an interaction term that multiplied difficulty (difficult = -1 , simple = 1) by self-focus (1 to 3). We then used logistic regression to predict entry with the following independent variables: difficulty, self-focus, difficulty \times self-focus, and fixed effects for both round and for participant. The results reveal a significant effect for the difficulty \times self-focus interaction term, $\beta = 1.88$, $p < 0.001$, and the overall $R^2 = 0.58$. These results suggest that self-focus is associated with both more entry into simple markets and less entry into difficult markets. Indeed, in simple rounds, the degree of self-focus is positively correlated with the decision to enter ($r = 0.28$, $p < 0.001$). However, in difficult markets, the degree of self-focus is negatively correlated with the decision to enter ($r = -0.34$, $p < 0.001$).

Discussion of Study 2

The results of the market-entry game reveal that the manipulation that should *not* have influenced entry decisions, namely the difficulty of the test, did influence them. Test difficulty had no effect on the money-making opportunities present, yet had a dramatic effect on entry rates. By contrast, the manipulation that *should* have influenced entry decisions, namely market capacity, did not. Market capacity did affect the risk associated with entry, but did not affect participants' personal performances (scores on the trivia quizzes), and it did not significantly affect rates of entry. Perhaps most telling, our participants ignored their own estimates of competitors' entry rates and proceeded to enter markets that they perceived to be simpler, even though they indicated believing that these markets would have more people entering. This is a stringent test of the power of self-focus to affect market-entry decisions.

Are rates of entry excessive? The typical simple round had six entrants. Those ranked in the top three spots all stood to make money. Those ranked lower all lost money (with the exception of the fourth-ranked entrant in capacity 3 rounds, who broke even). It may appear that the decision to enter was a mistake for those who lost money. However, the decision to enter was only an error at the time if they knew they would be poorly ranked when they decided to enter. Rational economic agents with no idea at all how their quiz performances would compare with those of others at the time they

decided to enter, should enter until the marginal value of entry is zero. For example, in a capacity 3 round, if four people have already entered but no one yet knows how they will rank relative to each other, then it should be tempting for a fifth person to enter. The top three entrants will collectively make \$30. The fourth-ranked entrant will lose \$10. The fifth entrant could rank anywhere, so the choice to enter has a positive expected value (\$2 to be precise, because $(\$30 - 20)/5 = \2). The sixth entrant is likely to be ambivalent about entry, because with six entrants, the amount lost by the losers (\$30) is exactly equal to the amount gained by the winners (\$30). Because participants had not taken the trivia quiz before they made their entry decisions, they had little information about their performance relative to other potential entrants.

Entry rates differed in the simple and difficult markets. Typical simple-ranked rounds had six entrants, while the typical difficult-ranked round had three entrants. These three entrants all made money, and the expected value of additional entry was clearly positive. However, other potential entrants stayed out. The best explanation for this decision is that they expected to be below average on the difficult tests. This reasoning is clearly myopic, because not everyone can be below average, even on the difficult test. However, it is entirely consistent with the self-focused explanations offered by participants for their entry decisions. It may be more noteworthy that the rate of entry into simple-ranked markets was not higher, given other evidence demonstrating overconfidence in entrepreneurial entry both in laboratory and in field data (Cooper et al. 1988, Camerer and Lovo 1999). The obvious explanation for this finding is that people did have some information about how they would perform on the various trivia topics, and so those who knew they would be worse than others were more likely to choose to stay out.

General Discussion

Taken together, the results of the field interviews and the laboratory experiment are consistent with our hypotheses. Potential market entrants focused on themselves at the expense of considering potential competitors, and this self-focus affected their entry decisions. Laboratory participants and working professionals (firm founders and nonfounders) displayed a strikingly myopic self-focus in their explanations for their entry decisions. They talked most about their own personal abilities, and spoke little about the capabilities of potential competitors. We show that explanations are related to the actual entry decisions people make. Self-focus increased entry in simple-ranked markets, but decreased it in difficult-ranked markets.

These results suggest that overconfidence and excess entry are not universal—they are restricted to markets

in which potential entrants feel confident of their personal performance, even if that confidence ignores the performance of competitors. This research contributes to the body of knowledge concerning entrepreneurial decision making by providing evidence for a psychological mechanism that can account for both entry and entry-avoidance. The literature to date describes a series of potential decision faults, all of which lead to entry. Myopic self-focus not only accounts for entrepreneurial overconfidence, but also for underestimations of ability that result in avoidance of difficult markets.

A large number of people and institutional processes are also at work making it possible for entrepreneurs to succeed. Will venture capitalists fall victim to the same myopic errors as the entrepreneurs? Many venture capitalists focus primarily on the abilities of the founder when making funding decisions (Gupta 2000). Such a narrowly focused information search is likely to replicate the error of betting more on an entrant winning in a simple than a difficult competition. Other laboratory evidence offers little hope that experience or feedback will eliminate the biases we document. Moore and Cain (in press) conducted a market-entry game like our experiment, except that their participants engaged in 12 rounds with full feedback after each round about all participants' scores, entry decisions, and rankings. Their results show persistent excess entry into simple-rank rounds and insufficient entry into difficult-rank rounds, and no evidence that participants learned to avoid these mistakes over 12 rounds.

What Makes an Industry Seem Easy?

There are numerous reasons why some entrepreneurial entry decisions may be seen as easy. Success in some industries (such as coffee shops, restaurants, or clothing retail) is based in part on knowledge or abilities that most people believe they possess. Entry into these highly visible industries tends to be excessive (Dun & Bradstreet 1997a, b; U.S. Small Business Administration 2003). Furthermore, individuals with prior experience in an industry—whether as an entrepreneur, employee, or customer—may be more likely to see entry in the same industry as easy. Both practice and vicarious learning help to build self-efficacy in a domain (Bandura 1977, Wood and Bandura 1989). As industries mature, people gain familiarity with them and they gain legitimacy (Hannan and Freeman 1989). This legitimacy no doubt contributes to an increase in the perceived ease of starting a business in the industry. Local successes also tend to increase founding rates in particular industries (Haveman 1993, Stuart and Sorenson 2003). Seeing others succeed may build the self-confidence of prospective entrepreneurs (Sorenson and Audia 2000). By contrast, unsuccessful businesses disappear from view quickly, and only rarely do they attract a great deal of media attention.

It may seem implausibly short-sighted of potential entrepreneurs to be encouraged by salient successes, yet fail to be discouraged by the competition implied by those same incumbent firms. It is exactly this sort of myopia that can account for the evidence we present. People predict that they will be better than others on easy tasks and are eager to bet on beating others, even when it should be obvious to them that the task will be just as easy for their competitors (Moore and Kim 2003). People correctly see that the easy test will mean that they will perform well, and even correctly predict that others will find the easy competition more attractive, yet they fail to take the next logical step to realize the competition will make it harder for them to win. Negotiators can display similarly myopic judgments in the presence of a deadline. Despite the fact that the deadline means the end of negotiations for both buyers and sellers, both sides predict that the deadline will hurt them and help their opponents (Moore 2004a, b, 2005). It is a short logical step from the observation of others' success to the inference that one might also be successful. The inference that, because they will be competing with you, their success decreases your chances of success requires an additional logical step that we argue is less frequently made.

Consequences of Myopic Entry Decisions

When perceived ease drives rates of founding, some odd patterns in the spatial and temporal distribution of organizations are likely to result. For example, starting an Internet-based business seemed easy in 1998, when rumors of venture capitalists backing entrepreneurs with wild ideas were common. Excess entry was likely facilitated by the self-confidence that entrepreneurs' gained by observing others' success (Sorenson and Audia 2000)—achieving success seemed easy. Ironically, like the subjects in our experiment who entered simple markets too frequently, such confidence increases entry rates in exactly those areas where strong competitors reside.²

Some entrepreneurs are no doubt skilled at thinking in sophisticated ways about the potential profits of entry and the threats posed by existing and potential competitors. However, our results suggest that at least some potential entrants make their entry decisions based on a myopic judgment of their own abilities. All else being equal, these myopic entrepreneurs would be most likely to enter when there are many examples of successful entrants, such as when an industry is undergoing a boom. This is, of course, not likely to be an opportune time to enter, given that major industry expansions are often followed by shakeouts that narrow the set of incumbent firms (Hannan and Carroll 1992, Singh 1993). The result will be that firms founded at the peak of organizational density are most vulnerable to failure. Carroll and Hannan (1989) have documented this phenomenon, which they labeled "density delay." Naturally, the peak

of density is likely to coincide with the presence of numerous examples of other successful entrants—but it is not likely to be the point at which success is actually easiest to achieve. Once the market niche reaches its carrying capacity, competition will escalate.

Practical Implications

Our results provide some practical advice to entrepreneurs. Teaching entrepreneurs to think about, analyze, and understand the competition may help them counteract self-focused and myopic tendencies. Entrepreneurs are likely to be more receptive to suggestions that they consider their specific competitive threats than they will be to suggestions to consider base rates of entrepreneurial success and failure (as suggested by work on the belief in the “law of small numbers,” Tversky and Kahneman 1971, Kahneman and Lovallo 1993, Busenitz and Barney 1997) or the effect of chance (as suggested by work on the illusion of control, Langer 1975, Simon et al. 2000). Furthermore, rather than telling entrepreneurs that they do not have enough information to confidently make their decisions (as suggested by work on overconfidence), our research indicates specifically what information they need. Entrepreneurs need to examine the competition. Empirical research suggests that industry effects (encompassing purely external factors such as competition, industry structure, etc.) explain approximately 17%–20% of the variance in business success (Rumelt 1991, Schmalensee 1985, Wernerfelt and Montgomery 1988), while organizational factors (such as a firm’s strategy) have been found to explain more—between 38% and 46% of performance variance (Hansen and Wernerfelt 1989, Rumelt 1991). However, even to set a firm’s strategy, managers must examine external factors, especially the competition. At the time of making a market-entry decision, an entrepreneur should therefore have an understanding of the competition for two reasons: (a) to determine if the industry is an attractive one to enter, and (b) to select a competitive position within an industry. The field of strategy offers tools that can help entrepreneurs assess competitive factors (e.g., Porter 1980). If entrepreneurs are trained to avoid myopic self-focus, they may make better entry decisions.

Limitations

The professionals recruited for the first study were a self-selected group, who may have agreed to be interviewed simply because they enjoyed talking about themselves. Such self-selection was not a factor in our laboratory experiment. However, participants in the experiment were younger, less experienced, and perhaps more naïve than the average entrepreneur. They were undergraduate students, and their youth or general lack of business sophistication could have reduced their insight into the strategic dynamics of the entrepreneurial entry game.

Three features of our results offer suggestions that our results are likely to be robust to generalization beyond these imperfect samples.

First, we demonstrate self-focused entry decisions not only among students in the laboratory, but also among older, experienced entrepreneurs. The parallels in the results of the two studies should provide some assurance regarding the generality of the effects we document. Second, while students’ inexperience could account for high rates of self-focus, it is not a good explanation for the interaction between self-focus and market difficulty. Third, the research literature on judgment and decision making repeatedly demonstrates the robustness and generality of decision-making biases that result from fundamental psychological processes (Lichtenstein and Slovic 1973, Tversky and Kahneman 1974, Northcraft and Neale 1987, Camerer 2000, Kahneman and Tversky 2000, Kahneman 2003). Gamblers in Las Vegas playing for big stakes show the same preference inconsistencies as do college students making hypothetical decisions in the laboratory (Lichtenstein and Slovic 1973, Radzevick and Moore 2005). Professional real estate agents fall victim to the same anchoring biases in their assessment of a home’s value as has been demonstrated with college students (Northcraft and Neale 1987). Professional statisticians employ the same faulty statistical intuitions as do the rest of us (Tversky and Kahneman 1974). While it may be tempting to assume that professionals will decide differently than students, the evidence suggests instead that we should assume the opposite: Basic psychological processes in judgment and decision making tend to be common across varying levels of age, experience, and incentives.

A limitation to our studies comes from our reliance on self-reports. We cannot be sure that our participants faithfully answered our questions. Participants may have provided explanations that centered on their own abilities to appear decisive and capable to the researcher, although this alternative explanation accounts better for self-focus leading to more entry in simple markets than self-focus leading to less entry in difficult markets. Even if our participants faithfully reported what they believed to have caused their behavior, copious evidence suggests that people are imperfectly aware of the reasons they make the choices that they do (Wilson 2002). While our data cannot prove that participants’ descriptions of their thought processes are not epiphenomenal or that they resulted from the decisions rather than caused them, participants’ decisions were consistent with the self-focused explanations they provided. They entered simple markets too frequently and difficult markets too rarely.

Of course, our findings do not rule out the simultaneous operation of other decision biases. For example, entrepreneurs may be more likely than others to see a task as easy, or their own abilities as high. Our findings do suggest, however, that we need to look again at such

work to determine whether there are indeed cognitive differences between entrepreneurs and nonentrepreneurs, as some work claims (Gaglio 1997, Kirzner 1979, Palich and Bagby 1995). Research into entrepreneurs' expectations of success for the ventures they have already started (e.g., Cooper et al. 1988) could be explained as easily by self-focus as by illusion of control and overconfidence, because such research samples on the dependent variable of interest in our study. Only those decision makers who felt they had high expectations of success were likely to enter in the first place. Research that compares entrepreneurs with managers in making generic entry decisions is likely to show differences because entrepreneurs have already experienced entrepreneurship, and therefore are likely to see repeat entrepreneurship as an easier task. These effects are quite difficult to disentangle, and it is likely that other decision biases operate in entrepreneurial entry decisions in addition to self-focus bias. Future research is required to make this determination.

Conclusion

The studies presented here support our contention that entrepreneurs tend to overweight personal factors and underweight consideration of the competition when making venturing decisions, suggesting that market-entry decisions are indeed driven by simple-minded logic (Cyert and March 1963). These entry decisions result from an information search that relies too heavily on the most easily accessible data: information about one's own and one's firm's capabilities. This tendency can lead to excess entry in some markets and insufficient entry in others. Our findings suggest that decision makers do not give enough weight to competitive factors when making entry decisions, and thus behave contrary to the prescriptions of strategy theorists. And, contrary to the conclusions of some entrepreneurship researchers, our findings imply that entrepreneurs are not universally overconfident. Our dual methodology, combining laboratory and field results, lends generality to our contribution to research in entrepreneurial cognition. Our findings also provide practical assistance to entrepreneurs by giving them more insight into the factors they need to consider, but tend to ignore, when making entrepreneurial entry decisions.

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Endnotes

¹To construct the matched sample, we categorized founders and nonfounders into the categories shown in Table 1, and assigned scores to each category: 1, 2, 3, or 4 for length of experience; 1 or 2 for entrepreneurial experience; 1 for unrelated experience, 2 for moderately related experience, and 3 for highly related experience. We then took a multiplicative combination of length of experience, entrepreneurial experience, and relatedness of experience as the final score, and constructed a sample that included one founder and one non-founder for each matched score.

²Of course, some amount of geographic agglomeration is attributable to transportation costs or agglomeration externalities. Also, greater entry in some industries, such as restaurants, may be attributable to lower barriers to entry. These alternative explanations, however, cannot account for the experimental data from our second study.

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